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PROGRAMME, THE ENVIRONMENT FUND AND ADMINISTRATIVE AND OTHER BUDGETARY MATTERS

The cost of administering trust funds and counterpart contributions

Report of the Executive Director

Summary

Prepared in response to Governing Council decision 19/24 B of 7 February 1997, this report presents the various actions the Executive Director has taken in identifying the full administrative and management costs incurred by the trust funds and the United Nations Environment Programme. The report further suggests actions that might be taken by the Executive Director in future to reduce the apparent subsidies trust-fund activities receive from other sources of funding.

The report concludes that, based on the current revised budget estimates for 1999 in respect of the United Nations Office at Nairobi (UNON) and the Special Account for Programme Support Costs (OT), it is estimated that the administration of trust-fund-related activities would continue to cost somewhat more than the 13 per cent charge normally levied on trust fund financed programme expenditures, while at the same time actual programme support costs charged would not exceed 12 per cent. The report further suggests possible corrective measures which could be taken without increasing the 13 per cent level of programme support costs, a level set by decisions of the General Assembly.

* UNEP/GC.20/1.

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Suggested action by the Governing Council

The Governing Council may wish to adopt a decision along the following lines:

The Governing Council

1. Takes note of the report of the Executive Director on the cost of administering trust funds;

2. Requests the Executive Director to implement appropriate actions directed towards reducing the cost of programme-support services provided to trust funds and related activities with a view to containing such cost within the programme support charges levied. These actions may include, inter alia:

(a) Measures to ensure that the full 13 per cent support charge continues to be levied on all trust-fund expenditure and is also levied on directly related expenditure financed from voluntary additional contributions such as counterpart contributions in support of conventions and other trust-fund activities;

(b) Measures to review the direct allocations provided to trust-fund-financed units, programmes and projects, as opposed to allocations provided to central administrative services, with a view to ensuring that trust-fund-financed units, programmes or projects do not incur a disproportionate burden on the programme-support charges levied;

(c) Measures to further ensure that the programme-support charges levied are not allocated towards activities of a programmatic nature, thereby decreasing the allocation available for provision of management and administrative services;

(d) Measures to further streamline and rationalize the provision of management and administrative services in an effort to continue decreasing related costs;

3. Requests the Executive Director to keep the issue under review and to report to the Governing Council at its twenty-first session on developments regarding the cost of administration of trust funds and related contributions and activities.

I. INTRODUCTION

1. By its decision 18/44 B of 25 May 1995, paragraph 3, the Governing Council requested the Executive Director to undertake a cost-management study of expenditure of administering trust funds, of resource shortfalls and of possible ways to overcome such a shortfall, if any, and report thereon to the nineteenth session. In response to this request, a report was prepared and submitted to the Council at its nineteenth session (UNEP/GC.19/18).

2. The interim analysis contained in that report indicated that the 13 per cent support charge levied on trust fund expenditures appeared to be broadly sufficient to cover the administrative burden created by trust funds and related counterpart contributions. However, the report also suggested that a more definitive analysis might actually indicate that the administrative burden might be slightly heavier than that calculated using the methodology adopted for that report.

3. By paragraph 1 of its decision 19/24 B of 7 February 1997, the Governing Council requested the Executive Director to fulfil Governing Council decision 18/44 B in a more comprehensive manner by identifying the full administrative and management costs incurred by the individual trust funds and the United Nations Environment Programme. The present report has been prepared in response to this request.

II. GENERAL CONSIDERATIONS

4. The 13 per cent programme support cost is charged in accordance with sections II and V of General Assembly resolution 35/217 of 17 December 1980. The rationale behind this provision is to ensure that activities financed from voluntary contributions, such as those to trust funds, do not cause an additional burden on the general fund of the United Nations, or in the case of UNEP, on the Environment Fund.

5. While the adequacy of the 13 per cent level has been subject to perennial debate in different forums, there is hardly any option for UNEP but to adhere to that level, as determined by the General Assembly, pending possible future decisions of the Assembly.

6. Nevertheless, it remains the mutual concern of the Governing Council and of the Executive Director to attempt to contain, to the extent possible, the cost of services provided to activities financed from trust funds and related contributions, within the programme support charges levied on these sources of funding.

7. Subsequent to the nineteenth session of the Governing Council, UNEP and UNON have undertaken an extensive exercise aimed at identifying all the costs incurred in administering and managing trust funds. Attempts were made to conduct a time-allocation study within various UNON and UNEP units. This study produced a general indication of proportion of resources dedicated to the administration of trust funds in the programme support units of UNEP and UNON. However, within the existing resources it was impossible to establish the exact level of resources required for administration of each trust fund. It was realized that for this exercise, a very elaborate system of time

accounting would be needed. Such systems, which are normally not used in civil-service organizations but are frequently employed in the private sector, usually take a long time to design and implement, are very labour-intensive and require considerable investment at the design, implementation and maintenance stages. It was therefore felt that the introduction of such a system for cost accounting with respect to the trust funds managed by UNEP was not realistic, from the point of view of available resources, and was not justified from the point of view of cost-effectiveness.

8. However, to better respond to the request of the Governing Council, some additional studies utilizing available budget and actual expenditure information have been recently conducted. The results of these undertakings are reported below.

III. RESULTS OF STUDIES CONDUCTED

9. In the recently conducted review of utilization of the programme support charges levied on the trust fund activities, it became apparent that, in the past, the allocation of related resources was not fully coherent or transparent: in a number of instances, staff performing functions clearly related to administration of trust funds were funded from Environment Fund, while in other cases posts dealing with programme activities were funded from the trust-funds overhead account. Under the circumstances, it was felt that discussing the past pattern of utilization of the trust-funds overhead resources would be meaningless for the purpose of the present report. It would be much more useful to base the review on the streamlined distributions of the overhead funds being implemented as of 1999.

10. Thus, after the preparation of revised budget estimates for 1998-1999, which fully take into account the recently completed restructuring of UNON as the central provider of all administrative services to UNEP, a more detailed review was undertaken to determine the estimated income received and cost of services provided for trust funds and related activities in 1999. The results of this review are contained in the annex to the present report.

11. For the purpose of the review, a realistic estimate was made of the level of expected expenditure under various trust funds, including counterpart contributions related to the activities of the trust funds. It should be noted in this connection that programme support charges are levied on the actual expenditure incurred under a trust fund in a given year rather than on the total amount of funds deposited in the trust fund. Moreover, no programme support charges are levied on counterpart contributions. The concept of "cost of services provided" has been limited to costs attributable to trust fund support in the UNON budget and to the direct support provided to convention secretariats and other trust-fund-financed units through administrative staff assigned to these units and financed from the Special Account for Programme Support Costs (OT). Management and other programmatic support provided to conventions and other trust-fund activities through UNEP programmes and units has not been considered. In evaluating the cost of administrative support to the trust funds provided by the UNON administration, the secretariat drew on the results of the study referred to in paragraph 7 above, which indicated that approximately 50 per cent of administrative services provided by UNON to UNEP programme activities are

attributable to trust-fund activities. The costs of these services were then prorated to conventions and other trust-fund activities in line with the estimated direct programme-activity expenses for 1999.

12. As can be seen from the table in the annex to the present report, the cost of services to be provided in 1999 is estimated at $6.5 million, which is 13.3 per cent of the total estimated expenditure of $49.2 million for trust fund and related counterpart contribution activities for the same year. It is expected that the cost of administrative support to the trust funds overall will be $670,800 higher that the amount levied for programme support costs.

IV. CONCLUSIONS

13. Although the studies carried out since the nineteenth session of the Governing Council do contain some subjectivity, particularly in the prorating of central-service costs, the clear conclusion is that the administration and management of trust-fund-related activities does incur costs that are somewhat higher than the programme support charges levied. This is particularly evident in the case of UNEP-affiliated conventions.

14. Given that it may not be possible to raise the 13 per cent support cost charge to more acceptable levels in the near future, an attempt remains to be made to identify and implement measures that may alleviate the situation, particularly by providing additional resources to the central administration budgets from the support costs collected.

15. At present, convention-related counterpart contributions, which are estimated at approximately $2.2 million for the year 1999, are not charged programme support costs at all. Discontinuing this practice would increase programme-support-cost collections, thereby contributing additional support to the cost of services provided and decreasing the subsidy element accordingly.

16. The high proportion of direct support-cost allocations to some trust-fund financed units should be kept under review, in an effort towards ensuring a more equitable distribution of support costs levied wherever possible.

17. Concurrently, additional modalities to charge the actual costs of services provided to these units might be further investigated in an effort to contain the cost of the other services provided within the programme charges levied.

Annex

FINANCIAL ESTIMATES FOR TRUST FUNDS IN 1999
(Thousands of United States dollars)

	ESTIMATED EXPENDITURE AND PROGRAMME SUPPORT CHARGE			COST OF ADMINISTRATIVE PROGRAMME SUPPORT PROVIDED				
	Expenditures A	PSC (2) B	PSC %AGE OF A (2) C	DIRECT COST D (3)	UNON COST E (4)	TOTAL COST F = (D + E)	COST %AGE OF A G	PSC LESS COST H = (B - F)
Conventions (1)								
CMS Bonn	1,444.6	182.9	12.7	122.9	114.4	237.3	16.4	(54.4)
SBCD Montreal	6,321.2	821.7	13.0	631.8	500.5	1,132.3	17.9	(310.6)
CITES Geneva	5,060.2	533.9	10.6	335.7	400.7	736.4	14.6	(202.5)
SBC Geneva	4,374.9	540.4	12.4	218.6	346.4	565.0	12.9	(24.6)
Ozone Nairobi	3,675.9	435.0	11.8	152.4	291.1	443.5	12.1	(8.5)
MEDU Athens	5,915.2	736.5	12.5	259.4	468.4	727.8	12.3	8.7
CAR/RCU Kingston	1,550.2	151.3	9.8	127.0	122.7	249.7	16.1	(98.4)
MFS Montreal	2,962.9	171.2	5.8	0.0	234.6	234.6	7.9	(63.4)
Subtotal	***31,305.1***	***3,572.9***	11.4	***1,847.8***	***2,478.8***	***4,326.6***	***13.8***	***(753.7)***
Other trust funds (5)	17,927.7	2,281.2	12.7	778.8	1,419.5	2,198.3	12.3	82.9
TOTAL	**49,232.8**	**5,854.1**	**11.9**	**2,626.6**	**3,898.3**	**6,524.9**	**13.3**	**(670.8)**

* The explanatory notes for the above table are contained on page 7 below.

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Notes

(1) In addition to trust fund contributions, most conventions receive voluntary counterpart contributions for specific purposes. No programme support charge has up to now been levied on such contributions. The 1999 expenditure estimates (A) include counterpart contributions (in thousands of United States dollars) as follows:

Convention on Migratory Species of Wild Animals (Bonn)	37.6
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (Geneva)	953.3
Convention on the Transboundary Movement of Hazardous Wastes and their Disposal (Geneva)	217.9
Vienna Convention for the Protection of the Ozone Layer and its Montreal Protocol on Substances that Deplete the Ozone Layer (Nairobi)	325.9
Mediterranean Action Plan (Athens)	250.7
Caribbean Action Plan (Kingston)	386.7
Total	2,172.1

(2) Column B indicates the estimated programme support charge to be collected in 1999. As can be seen in column C, this is less than 13 per cent in all cases except one. With the exception of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol, this is due to the acceptance of additional voluntary contributions to support the activities of the conventions, for which the programme support charge is not levied. For the Multilateral Fund Secretariat, the low figure is based on a special agreement, whereby, while the charge is lower, no direct support in the form of staff is provided.

(3) Column D indicates the cost of administrative staff located in the secretariat but paid for from the programme support cost account.

(4) Column E indicates the costs in the UNON budget attributable to providing services for trust fund activities. In total, this is estimated to be approximately one half (52 per cent) of the UNON 1999 budget, net of its regular budget elements. The total UNON cost has been prorated to have various trust funds in line with estimated trust fund expenditure (column A).

(5) "Other trust funds" exclude the Multilateral Fund for the Implementation of the Montreal Protocol, as well as the Global Environment Facility and the Turner Foundation activities implemented by UNEP.